



## MEETING SUMMARY

### CALIFORNIA WATER PLAN UPDATE 2013

#### FINANCE CAUCUS MEETING NOTES

9:30 A.M. – 3:30 P.M.

815 S STREET, SACRAMENTO, CA

### Meeting Objectives

1. Confirm the staging of finance planning information in Volume 1 of Update 2013
2. Evolve Draft Text for CWP Vol. 1, Chapter 7
3. Advance the Finance Planning Objective and Related Actions for Chapter 8

### Welcome and Introductions

The meeting began with a brief discussion of “buzz” words, which have been overused to the point of having lost their meaning. The Water Plan was urged to be thoughtful of when and how words are being used. They can be used too loosely and used in ways that bring different images to mind. For example, “alignment” originally surfaced to describe a desired alternative to situations where there is duplication of effort, or conflicting efforts. Likewise, cooperation and collaboration are different – it is possible to cooperate without collaborating.

Some concepts are always in the mix, without being said. Generally, approaches should be robust, resilient and sustainable. Where there are limits or constraints, that should be called out. Definitions are important. If you don’t describe the boundaries of what is being working towards, the word “sustainable” doesn’t have meaning. Context informs the definition of terms. If the context is not clear, the definitions and use of words won’t be clear. In discussing goals and objectives, in Volume 1, be sure to check for clarity – especially from the perspective of general readers.

### Where We Are

This builds on material provided at the March 28<sup>th</sup> meeting. The finance framework is a high-level strategic planning document, which will help establish a shared and comprehensive understanding of the financial context including current finance conditions. The framework will identify State IWM investment principles, and potential financial strategies and revenue sources. Mr. Massera reviewed the chapters for Volume 1 of Update 2013, with key messages associated with each of the chapters. Financial considerations are also proposed for the several chapters, as described below:

- Chapter 1: Move from a situation where funding drives priorities, to one where priorities drive the funding
- Chapter 2: Historical funding and expenditures
- Chapter 3: Critical time for investment and role of State government in IWM
- Chapter 7: Key content on the financial planning framework
- Chapter 8: Implementation Plan



## Discussion

- Provide references for where additional information is provided or cross-linked
- It would be helpful to include the logo, for the three themes of Update 2013, in Chapter 1
- Watch for use of buzz words in Volume 1 when describing the larger context.

## **Overview of Chapter 7**

Mr. Massera restated that the purpose for Chapter 7 to describe current financial conditions, financing options and data that informs recommendations. Specific details include an historical recap of resource management approaches, expenditures and funding strategies with additional detail for the time period from 2000 to 2010. A summary regarding general obligation bonds and current debt levels is also provided. The closing sections of Chapter 7 address the role of state government, finance principles and funding options. The chapter has been revised based on comments submitted to date. It was noted that much of the original storyboard has been incorporated into various sections of Volume 1.

Paul Massera and Allan Highstreet summarized comments that have been made to date, including emphasis on: the future role for state government (if not administering general obligation bonds), how investment priorities will be established, the role of local government in IWM and reframing the guiding principles to focus more on values (rather than recommendations). Definition of words will be important, since many of them will be important to different audiences for different reasons. An example of this is the term “beneficiary” – where it may be used in different ways across government (and across regions) and brings up questions of who pays and how much/what types of benefits are being looked at.

There was a reminder that there is a caucus subcommittee that is looking at definitions, and internal consistency of terms for Update 2013. Also, for some words it is not possible to settle on one definition.

It would be acceptable to take a dictionary approach, where multiple definitions might be provided. In these cases, it is important to clarify the context where the phrase is being used. In describing current conditions, it is essential to explain “what is” without applying judgment (either advocating or discouraging any particular strategy or option).

## Discussion

- As the thinking and text has evolved, it would be good for the Finance Caucus to ask if the text accomplishes what was originally discussed. Those concepts that have not been incorporated, should be revisited to look at how they might be addressed in the future.
- The term of “investment” is itself open to interpretation and often used broadly. The concept can include capital infrastructure (hard or soft) and services (such as O & M).

**ACTION ITEM:** Look at mapping out the storyboard, to indicate where the respective parts of the storyboard occur in Volume 1. Include the storyboard and tracking sheet in Volume 4.



## Walk-through of Document

### About This Chapter

This section lays the groundwork for the chapter and describing what the chapter seeks to accomplish. The following comments were provided:

- Add sidebar upfront of “What is IWM?”
- Include the big picture items relating to the imperative to act – why this is on the table? People struggle with some very big picture items. What’s the balance between borrowing and “cash on hand.” May be approaching the ceiling about how much debt we’re willing to take on. Describe the need for investment principles and a decision-support system. It might be better to focus on the outcome for all of this.
- The summary and findings are provided at the end of the chapter – and needs to be brought to the front. Describe generally what we finding or thinking. This has a bit of risk, since it surfaces some controversial topics, and also helps frame the discussion.

### 1850 – Present

This provides some basic facts to describe current conditions. Much of this history has not been previously been compiled and summarized. The trends help track the evolution of decision-making. Feedback on this section included comments on

- Figure 1: The goal of this diagram is to characterize how priorities and payers have changed over time.
  - There is a heavy emphasis on state and federal investments for infrastructure. For many projects, local funding represents the primary source of funding.
  - Descriptors are needed for various development practices.
  - Be clearer that this chart represents more centralized resource management direction. Local investment for supply has a different evolution, from individual wells to municipal systems.
  - The meanings of “reclamation” and “conservation” have changed over time.
  - Say US Bureau of Reclamation, when that is that is intended; refer to the reclamation period
  - The reclamation period is associated with a desire to settle the west. I may not be helpful to name them, might be better to number them or show date range.
  - It might be useful to describe the different water management goals (water supply, flood management, wastewater).
  - California is still reclaiming and developing land. It may be better to say this defines funding strategies for IWM (as we now define it).
  - There are a lot of histories for the local and state trends regarding investment. It might be better to describe the investment outcomes that were intended in the past, and what efforts are still being supported today? (E.g. much of today’s investment is in maintaining the function of earlier investments.)
  - An additional diagram could describe the need for the Integrative Period to support past expenditures, as well as to move forward to support sustainability goals.



- The bond period should not be called out as a separate period. There were a lot of bond funds in other periods (other than environmental/public trust period, which looks like it extends the whole time).
- This is a helpful overview of past investments.

IWM Expenditures (pages 4-6): Information was obtained from the State Controller's Office.

- Might want a note on data limitations.
- Figures 2 and 3
  - Figure 2 shows state and federal, going back to 1985. On Figure 3, local only goes back to 2001. There is some overlap, might want to downplay the earlier figures and provide a snapshot of the current balance. It is important to recognize the local contribution.
  - Figure 2 demonstrates some of the variability in state expenditures.
  - Is there a reason why state and federal expenditures are shown first?
  - Could add local expenditures to Figure 2, with an asterisk to show that data is not available for local before 2001. This will be important since Figures 2 and 3 are at different scales.
  - The symbology makes it difficult – there is a partial view (of state and federal expenditures) followed by an expanded and cumulative view of the compressed section at the end.
  - When converting values in Figure 2 to billions, the numbers are not consistent with the values reflected in Figure 3. (Note: Text is correct regarding average for state expenditures.)

ACTION ITEM: Review Figures 2 and 3.

2000-2010 Expenditures (pages 7-10):

- Figures 4, 5, 6: These figures and categories are rolled up from the state.
  - On Figure 4, where do revenue bonds and state revolving fund expenditures come in?
  - The Federal values on Figure 4 needs to be revised, they are not consistent with values in Figures 3 and 4.
  - In Figure 5, total values by year are not consistent with values shown in Figure 4. (For example, 2010 in Figure 5 shows about \$.8 B in expenditures; 2010 in Figure 4 shows more than \$2B in Federal expenditures.
  - The “y” axis is called “spending” – in the text, it says “expenditures.” Have the language in the chart be consistent with the text.
  - In Figure 3, the values that don't change very much are at the bottom – do the same for Figures 4 and 5 to provide continuity across the figures.
  - Provide a footnote that says what is included in the figure.
  - All the figures say “estimate” – explain the reason for this in the text.



- All of this is listed as expenditures and General Obligation bonds need to be paid back – perhaps this should be a separate figure. Is this the money that was allocated or is this the paying back of G.O. bonds? Does the General Fund value include the debt service? (Clarify that this represents the allocation of G.O. bonds.) This explains where the money is going.
- There needs to be a graph of cumulative debt. (Is that Table 2 on page 13?)
- Explain the cost of money for different types of money, which might inform how different types of funding are spent in the future.
- General comment: Spending, expenditure, investment, funding – any number of words are being used somewhat interchangeably. Some have different technical meanings.
  - Does this need to be described in text – providing a “finance 101” basic overview?
  - Condense the historical material and provide an analysis (which is currently missing). An expanded history and explanations would be contained in Volume 4. Chapter 7 needs to focus on “why” we are doing this. The text would substantiate the final recommendations. Tie the finance framework to the Imperative to Act, describe the key state interests, describe how financing relates to the Water Plan objectives – the focus would be on the finance principles (with much more detail) and some key recommendations that come out of that. (E.g. Page 7 should provide a narrative describing the evolution of the state’s expenditure portfolio.)
  - What are the implications associated with the spending? For example, we have spent a lot of borrowed money and the debt service is important to us. That might be a conclusion – with a policy going forward (e.g. less borrowed money in the future). The analysis would highlight the principles of what we learned from the historical data.
  - We need to need to tell the story of where we’re at (the “as is” state), and why it’s important to the funding innovation that we’re advocating for going forward.
  - The background section should discuss the past and changing state role for IWM (components). How can we define the state role for IWM? (This could be constantly cross-referenced.)
  - The values can discuss the indebtedness associated with G.O. funds, and why it better suited to some expenditures and not others.
  - All of this shows who is benefiting v. who is paying (through time). Local factors have a smaller group paying, who are also the beneficiaries. Everyone pays for G.O. bonds.
  - Understand that we normalized dollars, but that isn’t carried through on page 14 (G.O. Bonds aren’t adjusted, and therefore implies hyper-inflationary expenditures.)
  - Does it help to have the policy discussion first, then look at the information that supports the policy?



ACTION ITEM: Provide glossary definitions for each bond type, then pulled back into the text to that the reader knows what it being discussed.

Lisa Beutler recapped three themes from the discussion:

- The game plan for the chapter should be to describe how the state role has changed over time.
- The State's role informs the tools that were used, with each tool having certain choice points (and describe the choice points).
- Particular snapshots of information illustrate the point we're trying to make.

## State Government Basic Obligation (page 18)

This section should provide a basis for estimating future costs, by clarifying the State's role.

Discussion points included the following:

- Another bullet is needed: Through the State Water Project, assuring water supply to a significant section of California was an important role for DWR and now is the role for one section of DWR.
- Public safety looks at damages from flood and earthquakes; public health relates to water quality. The public health and safety element is too narrowly constrained.
- The obligations of the state have a link to liability. State interests are aligned with the water code.
- A commitment is an affirmed responsibility; obligations can be imposed. The framework of basic obligations provides a reference point for the discussion and explains what is mandated. This section should describe the minimum expectations of what the state will do.
- The state's role has a constitutional and legal basis that informs the conversation. The policy question is how that basis is interpreted.
- Is there significance for "day-to-day" obligations?
- There are two aspects to this section:
  - What is the State's obligation?
  - What are the financial aspects related to the obligation?
- The storyboard discusses the role of state government in advancing IWM. The state role has two components: existing obligations, and leadership in advancing investment in innovation and infrastructure. The conversation is essential, although the discussion could be laid out in Chapter 3, then referenced in Chapter 7. It should be introduced early in Chapter 7.
- Does the list on page 19 reflect foundational elements of the State's role?
  - What has the state done, what will it continue to do, what new activities will the State be involved in? The answers will inform what the associated costs are.



- The description of the state role must be detailed enough to support the policy discussion on funding.
- IWM activities cover four areas, which informs what needs to be financed:
  - Flood
  - Ecosystems
  - Water Supply
  - Water Quality
- How does the list of basic government obligations, on page 19, help identify the costs associated with IWM? We might need a hierarchy regarding components of the State role:
  - Constitutional/statutory obligations (which might need to be re-evaluated)
  - Commitments (which might need to be re-evaluated)
  - New roles that support IWM (leadership)

ACTION ITEM: Pages 35-38 and pages 18-20 must be moved to the front of Chapter 7.

Guiding Finance Principles: These represent values to keep in mind when making a decision.

- Some of the “principles” are actually findings, such as:
  - Intermittent funding carries its own cost, including loss of the capacity to do the work.
  - Broad-based funding enhances stability.
- Some of the principles are recommendations:
  - Look for multiple funding sources
  - Follow general accounting principles

Participants reworked the concepts that were provided in the draft of Chapter 7, and from the meeting discussions, to identify underlying beliefs. For each belief, meeting participants were asked to identify the “rule” that should be followed for making decisions. Using this process, the following list of principles was developed:

1. Decisions about investments must be in line with reasonable expectations about future revenues. (This supports a belief that projects and programs are best supported by consistent and sustainable funding.)
2. Commit to good stewardship in public funding, including accountability. This encompasses the discipline to spend reasonably, with clarity of purpose, in a way that engenders trust. (This supports a belief that funding decisions should be transparent.)
3. Those receiving benefits should pay for them. (This supports the belief in equity regarding value exchange.)
4. Public funding pays for broad statewide benefits; the public pays for shared benefits. (This supports a belief in protecting the commons, where it may be difficult to identify all of the beneficiaries.)



5. Regarding legacy impacts:
  - a. The public pays for that portion of legacy impacts that cannot be assigned to those who caused the harm.
  - b. Public funds may be needed to address impacts requiring an immediate response (e.g. before determining who pays).
  - c. Some impacts could be unaddressed indefinitely.
  - d. Correct the harm in proportion to the public interest.
6. Account for real life-cycle project costs, including O & M. (This supports the belief that it is wasteful to strand capital; each project should internalize all of its costs. Ties back to #1.)
7. Be clear about the use of intended funds and do not redirect funds away from the intended purpose. (This support the belief that we should do what we say, engender trust and discourage bait-and-switch tactics.)
  - a. Provide a clear nexus and proportionality between charges and benefits. (AB1600-year; statutory reference)
8. Provide a significant share of proportional costs for disadvantaged communities. (This supports the belief that there is a responsibility to help those who can't help themselves, and that everyone should have basic needs met. The decision rule is that the public pays for basic needs of those who cannot afford it themselves.) The public pays to meet state interests when beneficiaries cannot fully cover the costs, such as:
  - a. When there are (imposed) regulations that can't be met
  - b. Addressing legacy decisions that were made in the past (e.g. promoting settlement of the west)
    - i. Subsidize those externalities (could include buying out and relocating some; any number of solutions subject to a cost-benefit analysis)
    - ii. In addressing the situation, understand the cause so that the situation is not perpetuated
9. Develop and apply prioritization criteria. (This supports the belief that: there are limited resources, we can determine what's most important, and proportional value or weights can be assigned to criteria. The rule is that we will address the highest-priority items first. This also supports a belief in making the most of what you have, where the rule is to create a basis for understanding trade-offs and optimizing outcomes.)
10. Use triple (or quad) bottom line for criteria development – economic, environment, equity/social, and energy considerations.
11. Broad stakeholder interests must be invited to be involved in the decision. (This supports beliefs that: stakeholder involvement will create a better-informed and more durable decision; the public has a right to participate in the decision; and as a government of the people, we all own the outcome.)
12. Encourage multiple-benefit projects that are technically and economically feasibility and provide public benefit. (This supports a belief that the state is better off with a broader portfolio of projects that provide diverse benefits).



13. The amount of time needed to repay a loan should not exceed the length of time that benefits exist.
14. Make decisions with limited knowledge.

#### Next Steps

- Look at recommendations and finding, then see if there is a related principle. If we are looking to support certain types of investment, there must be a structure in place to support that.
- Pages 33-24: Explain the fee v. tax issue (Propositions 218 and 26)
- Page 35: Add that innovation occurs at all scales.



**ATTENDANCE**

Dave Bolland, Association of California Water Agencies  
Carmel Brown, DWR  
Brian Campbell, East Bay Municipal Utilities District  
Grace Chan, Metropolitan Water District  
Dave Eggerton, El Dorado County Water Agency  
Cheryl Essex, State Parks  
Paul Gilbert-Snyder, Bay Municipal Utilities District  
Bruce Gwynne, Department of Conservation  
Liz Haven, State Water Boards  
Allan Highstreet, CH2MHill  
Nick Konovaloff, Regional Council of Rural Counties  
Valerie Nera, California Chamber of Commerce  
Cindy Paulson, California Urban Water Agencies  
Mark Stadler, San Diego County Water Authority  
Susan Tatayon, The Nature Conservancy  
Iovanka Todd, Floodplain Management Association  
Eric Tsai, MWH

Megan Fidell, DWR  
Paul Massera, DWR, Water Plan Program Manager  
Lewis Moeller, DWR, Water Plan Project Manager  
Elizabeth Patterson, DWR  
Lisa Beutler, MWH, Water Plan Executive Facilitator  
Judie Talbot, CCP, Facilitator

**Webinar**

Lauren Bauer, Kern County Water Agency  
Anisa Divine, Imperial Irrigation District  
Aaron Fukuda, Tulare Irrigation District  
Chris Keithley, CalFire  
Hyeong Ryeol Kim, UC Irvine  
Stathis Kostopoulos, Metropolitan Water District  
John Ricker, County of Santa Cruz  
Jake Spaulding, Sonoma County Water Agency  
Jennifer Svec, California Association of Realtors